

# Purchasing Additional Service Credit

## **Types of Additional Service Credit**

**Reinstatement**

**Current Leave of Absence**

**Noncurrent Leave of Absence**

**Military Service**

**Out-of-State Service**

**Peace Corps Service Credit**

**Fractional Service/Balance of the Year Purchases**

**Nonqualified Service Credit**

**Kentucky Legislative Service**

**Federal Head Start Service**

**Regional Community Mental Health and  
Mental Retardation Service Program**

**Timeframe for Purchasing Service Credit**

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**Fractional Service/Days Missed Without Pay**

**Example Letter – Fractional Service/Unpaid Days**

### **EMPLOYER RESPONSIBILITIES**

- Complete the Lost Services/Personal Contributions Form for those members who wish to purchase fractional credit.
- Certify the information, including dates leaving and returning, for members on a Leave of Absence.
- Provide member with a copy of the board minutes granting their leave of absence.

### **TYPES OF ADDITIONAL SERVICE CREDIT**

There are opportunities for members to purchase additional service credit to add to their retirement accounts. The types of service credit purchases are described below.

If eligible, a member may purchase the following types of additional service:

- Reinstatement
- Current Leave of Absence
- Noncurrent Leave of Absence
- Military Service
- Out-of-state Service
- Peace Corps Service Credit
- Fractional Service / Balance of the Year Purchases
- Nonqualified Service Credit
- Kentucky Legislative Service
- Federal Head Start Service
- Regional Community Mental Health and Mental Retardation Service Program

### **REINSTATEMENT**

If a member resigns from a KTRS covered position, the member may either withdraw their funds or leave the funds on deposit. If the member withdraws the funds, their membership will be cancelled just as if they had never contributed to the system and, if they later return to KTRS-covered employment, it will be as a new member. They may reinstate a withdrawn account if they have contributing service equal to one (1) year by repaying the amount of the original withdrawal plus 8% interest compounded annually from the date of withdrawal to the date of repayment. After the account is reinstated, the member's membership status is the same as if the account had never been withdrawn.

### **CURRENT LEAVE OF ABSENCE**

Upon proper certification, a member on an official leave of absence may contribute and receive service credit for the leave. The member's personal payment must be made to KTRS by June 30 of the year following the year for which the leave was granted. An 8% annual interest charge is added if the

payment is not made by June 30 of the school year for which the leave was granted.

Members are limited to the purchase of three (3) years leave during a ten (10) year period.

Since KTRS is not usually informed when members are granted leaves of absence, the staff cannot always advise the member of their right to obtain service credit for the leave. **Therefore, KTRS requests that the employer advise members of this opportunity and of the need to contact KTRS at the time the leave is granted.**

**KTRS recommends a letter be sent to the member as suggested in the Example at the end of this section.**

A member interested in obtaining credit for a leave of absence should forward a copy of the Board Minutes granting the leave to KTRS along with a Leave of Absence Form (LOA-1). The most recent version of Form LOA-1 can be obtained from our website ([www.ktrs.org](http://www.ktrs.org)) under "resources" and "member forms".

KTRS can then advise the member about their eligibility to purchase the leave. The member's personal payment for a leave of absence shall be made directly to KTRS and not through the employer.

## **NONCURRENT LEAVE OF ABSENCE**

A member may be eligible to purchase service credit for a noncurrent leave of absence when the leave was granted for health reasons, for maternity or child rearing, or to improve educational qualifications. A noncurrent leave of absence is a leave that has occurred since July 1, 1964, and before the fiscal year preceding the current fiscal year. The leave must be certified to KTRS by supplying a **copy of the board minutes** that granted the leave. The member will be required to pay the employer and the member contributions, plus any accrued interest at the rate of eight percent (8%) per annum, when purchasing noncurrent leaves of absence. A member may not receive credit for more than two (2) years under this provision.

## **MILITARY SERVICE**

### **Prior Military and Public Health Service**

A member may receive service credit for up to six (6) years of active military service or service in the commissioned corps of the Public Health Services if the member is in active contributing status and was in the military or Public Health Service prior to their employment in a KTRS-covered position.

**Note: The member must purchase the credit before retirement.** Service may be credited only if the discharge was honorable. To obtain a statement of cost and service credit, the member must send KTRS an official copy of their DD Form 214 (Military Service) or other official military records (Public Health Services) establishing the dates of entry and release from active duty. KRS 161.507(4)(a) requires the member to contribute 100% of the actuarial cost of each year of military service credited. Prior military service is considered Kentucky teaching service, but does not count toward vesting the member's retirement account. If the member is drawing or eligible to draw retirement benefits for twenty (20) or more years of active duty military service, the member is not eligible to purchase military service credit. No credit will be granted for service that is being used to qualify for annuity benefits from another retirement system financed wholly or in part with public funds.

### **Military Service After Becoming a Member of KTRS**

A member may also receive service credit for military service that occurs after becoming a member of KTRS if advance written or verbal notice of performing military service is given to the employer. In order to receive service credit the member must return directly to KTRS-covered employment following the military service. Contributions are based upon the salary the member would have earned during the period of the absence for military service plus interest at eight percent (8%) per annum.

If the member is drawing or eligible to draw retirement benefits due to twenty (20) or more years of active duty military service, then the member is not eligible to purchase military service credit. No credit will be granted for service that is being used to qualify for annuity benefits from another retirement system financed wholly or in part with public funds.

In addition to state law, the Uniformed Services Employment and Re-employment Rights Act ("USERRA"), enacted in 1994, provides federal guidelines for continued participation in KTRS while the member is on active duty. **To receive salary and service credit, the member must document their military service with form DD214 and a letter from the employer providing the ending date of employment and the return date of employment.** The member is responsible for their contributions to KTRS. The member will have three (3) times the amount of military active duty or five (5) years, whichever is shorter, to purchase the service credit.

KTRS can provide the member with very limited, general information regarding USERRA, as this is a federal law subject to federal amendment and interpretation. Therefore, the member should always contact the federal authorities charged with the administration of USERRA if they have any questions regarding its application. The National Committee for Employer Support of the Guard and Reserves maintains a USERRA website at [www.esgr.org](http://www.esgr.org). Contact their toll-free number at (800) 336-4590 and ask for Ombudsmen Services.

### **National Guard and the Military Reserves**

Active contributing members of KTRS may receive service credit for service in the military reserves or the National Guard. The member may purchase one (1) month of service for each six (6) months of service in the reserves or the National Guard. The member is required to pay the full actuarial cost for this service. This service cannot be used in meeting the service requirements for either regular service retirement or disability retirement. No credit will be granted for service that is being used to qualify for annuity benefits from another retirement system financed wholly or in part with public funds.

## **OUT-OF-STATE SERVICE**

If a member is an active contributing member of KTRS with at least one year of KTRS service subsequent to the latest out-of-state service and the member contributed to KTRS prior to July 1, 1976, he/she is eligible to purchase credit for up to ten (10) years of certifiable out-of-state service performed in a public school or United States Government Dependency School. If the member entered KTRS on or after July 1, 1976, he/she may purchase one (1) year of out-of-state service credit for every two (2) years of Kentucky service completed. Members who joined the System on or after July 1, 1976, and have completed ten (10) years of Kentucky service, may purchase credit for up to ten (10) years of acceptable out-of-state service. Only full-time service is purchasable, part-time and substitute service are not purchasable.

The member may purchase retirement credit for out-of-state teaching service rendered under contract in public schools in another state, or service performed at the University of Kentucky, University of

Louisville, and Northern Kentucky University. Effective July 1, 2005, KTRS 161.515 requires the member to contribute 100% of the actuarial cost of each year of out-of-state service. The cost is calculated at the time of retirement based on the member's age, average salary and the amount the retirement benefit increases due to the purchase of the out-of-state service. Out-of-state credit counts the same as Kentucky service when calculating the retirement benefit, but it does not count toward the five (5) years of Kentucky service required for vesting. Members who purchased out-of-state service prior to July 1, 2005, may use out-of-state service to qualify for twenty-seven (27) year retirement by paying an additional charge. The additional charge is computed by multiplying 8% times the final average salary at retirement for each year of out-of-state service that is qualified. Members age sixty (60) or older are not required to pay the additional charge, unless out of state service is used to qualify for the three (3) year final average salary formula. In this case, members are required to make the qualifying payment at retirement. Credit will not be granted for service which is being or will be used in qualifying for annuity benefits from another state.

If the member wishes to obtain retirement credit for out-of-state service, he/she must have your former employer certify your service to KTRS on forms prescribed by KTRS. Upon receipt of the certification, KTRS will notify you concerning the amount of service you may purchase and the cost.

Please have the member call KTRS and request an out-of-state form. Since this form must go to a former employer and a former retirement system, this process can take months.

## **PEACE CORPS SERVICE CREDIT**

If a member has served as a federal Peace Corps volunteer, they may be eligible to purchase service credit in KTRS. Eligible members may purchase up to two (2) years of qualifying service credit. The cost is determined on the same basis that is used for calculation of the out-of-state service. Members may use Peace Corps service in qualifying for twenty-seven (27) year retirement, but an additional charge will be required at retirement. To obtain a statement of the cost and purchasable credit, the member must send KTRS a certified copy of the Certification of Peace Corps Volunteer Service. No credit will be granted for service that is being used to qualify for annuity benefits from another retirement system financed wholly or in part with public funds.

## **FRACTIONAL SERVICE / BALANCE OF THE YEAR PURCHASES**

### **Members Who Work at Least 7/10 of the Year**

If a member is employed on a regular full-time or part-time basis, or as a substitute, and works less than the regular contract year, then the member will earn less than a full year of service credit. If the employment is at least seventy percent (70%) of the regular contract year but less than the full year, then the member may make a personal contribution which will provide a full year of service credit. **If the employment began after the start of the contract year, the member is not eligible to purchase credit for service before the start of the employment.** All payments must be made by December 31 following the fiscal year in which the fractional service occurred.

### **Members Who Work at Least 1/2 of the Year**

If a member is employed on a regular full-time basis and completes at least one-half (1/2) of a regular contract year, then the member may purchase the balance of the contract year. This option cannot be

exercised more than once every three (3) years. All payments must be made by December 31 following the fiscal year in which the fractional service occurred.

### **Members Who Are Employed for at Least One Complete Pay Period**

If a member is employed on a regular full-time basis at the beginning of the fiscal year and works for at least one complete pay period, then the member may purchase the balance of the year for a full year of service credit. This option cannot be exercised more than once every ten (10) years. All payments must be made by the end of the fiscal year following the year in which the salary payment was made.

If a member is in any of these situations described in this section, the employer may wish to advise the member to inquire about purchasing "lost service."

**KTRS recommends a letter be sent to the member as suggested in the Example at the end of this section.**

The member should obtain a properly completed Lost Service/Personal Contributions Certification form (LS-1) from the employer's payroll office and forward it to KTRS, who will advise the member of any eligible purchase. Purchases must be made by December 31 following the fiscal year in which the fractional service was lost.

A Copy of Form LS-1 appears in the Forms section and can be obtained at [www.ktrs.org](http://www.ktrs.org) under "resources" and "member forms."

## **NONQUALIFIED SERVICE CREDIT**

An active contributing member who has a minimum of twenty (20) years of service credit may purchase up to a maximum of five (5) years of service credit not otherwise provided for in KTRS statutes and which meets the definition of nonqualified service as contained in federal law. At the time of retirement, the member is required to pay the full actuarial cost of any benefit enhancement derived from the usage of nonqualified service credit. If the member purchasing this credit is either less than age 55 or has less than 27 years of service credit, then an additional payment must be made for the cost of obtaining medical insurance earlier than usual.

## **KENTUCKY LEGISLATIVE SERVICE**

A member of KTRS who has service as a Kentucky Legislator that is not covered by a retirement system administered by the Commonwealth of Kentucky may present up to four (4) years of such service for credit in KTRS by paying the full actuarial cost of the service credit.

## **FEDERAL HEAD START SERVICE**

An active contributing member of KTRS whom a Federal Head Start Agency formerly employed and who did not participate in a state-administered retirement system may obtain credit for the period of the member's service by paying the full actuarial cost of the service credit.



## REGIONAL COMMUNITY MENTAL HEALTH AND MENTAL RETARDATION SERVICE PROGRAM

An active contributing member of KTRS who was formerly employed by a Regional Community Mental Health and Mental Retardation Service Program and who did not participate in a state-administered retirement system may obtain credit for the period of the member's service by paying the full actuarial cost of the service credit.

### TIMEFRAME FOR PURCHASING SERVICE CREDIT

Members interested in purchasing additional credit for out-of-state service, noncurrent leaves of absence, military service, Peace Corps, or reinstatement of a withdrawn account may contact KTRS anytime during their career in a KTRS-covered position, but at least ninety (90) days prior to their retirement date. Remember, current leaves of absence, fractional / balance of the year, and part-time service purchases must be made by certain deadlines as discussed above. Additionally, there may be other conditions and deadlines if purchasing active duty military service credit under the USERRA provisions. Members are encouraged to put their account in order before filing a retirement application. Note: A member will not be permitted to purchase service credit of any kind after the effective date of their retirement. KTRS must receive all necessary payments in time to process the retirement application. Approval of the retirement application will be delayed until all payments have been received.

### INSTALLMENT PAYMENTS

A member in active contributing status may purchase certain types of service credit by entering into an installment agreement in lieu of a lump sum payment. The agreement requires payments to be made via payroll deduction or by bank draft. **In order to initiate an installment agreement the member is required to make a written request.** The minimum installment agreement must be for at least \$1,000 and the monthly payment at least \$50. Installment agreements can be structured between twelve (12) and sixty (60) months. (Please see Chapter 8 Installment Payments through Payroll Deduction).

### ROLLOVERS AND TRANSFERS FROM OTHER ELIGIBLE PLANS

Rollovers allow a member to transfer funds from many different types of retirement plans to KTRS to pay for service credit purchases without loss of tax benefits. In many cases, this is a real advantage. A member's current custodian must agree to make the transfer, and the member must follow specific requirements set forth in federal tax regulations. KTRS will accept rollovers from most qualified retirement plans.

KTRS will accept spousal rollovers of distributions from Section 401(a), 401(k), Keogh, 403(a), 403(b), and 457(b) governmental plans that the member's deceased spouse participated in or that have been divided by a Qualified Domestic Relations Order. Internal Revenue Service regulations do not allow KTRS to accept rollovers from Roth IRAs.

KTRS can process a rollover payment after we receive a completed Rollover Certification form.

Members interested in rolling over or transferring funds from another eligible plan should contact KTRS for details.

### **FULL ACTUARIAL COST**

The methodology for calculating the full actuarial cost of service credit purchases is subject to periodic review by the retirement system's actuary and may be adjusted if necessary to ensure that the full actuarial cost is charged.

**Note: All payments for service credit purchases, whether made in lump sum or by installment, are subject to a final reconciliation at the time of retirement to ensure that the member has paid the correct cost of the service. Overpayments by the member will be refunded and underpayments will require the member to pay any additional amount necessary to reflect the true cost of the service.**



**EXAMPLE LETTER:  
LEAVE OF ABSENCE**

RE:   Member's Social Security Number  
      Member's Name  
      Member's Address

Dear \_\_\_\_\_

Your request for a leave of absence for the period beginning \_\_\_\_\_ and ending \_\_\_\_\_ has been approved. If you are interested in obtaining retirement credit for this absence, you should forward a copy of this letter, the enclosed copy of the board minutes granting this leave of absence and the enclosed form (Leave of Absence, LOA-1) to the Kentucky Teachers' Retirement System.

Contributions for a leave of absence must be made by the end of the school year following the year in which the leave of absence occurred. If this purchase is not made within this period, the credit cannot be purchased. Interest charges of 8% per year may be avoided by making the purchase during the school (fiscal) year in which the leave occurs.

Members on leave from federally funded positions must be sure that the employer's matching contributions are submitted by your employer at the time you make your payment.

Please contact the Kentucky Teachers' Retirement System at (800) 618-1687 if you have any questions.

Signature of Authorized School or Agency Official

Date

Phone Number

## **FRACTIONAL SERVICE/DAYS MISSED WITHOUT PAY**

### **PROCEDURE**

After the employer receives the KTRS printout of the Annual Report showing credit awarded to each member (see Chapter 5, "Employers Annual Report of Earnings"), a letter may be sent to members who qualify to purchase the balance of the fractional credit. Further responsibility then rests with the member.

The member would be given the letter appropriate to his or her circumstances.

**NOTE: Members frequently complain that their employers did not let them know they were not getting a full year of retirement credit. This type of letter, when placed in the member's personnel file, would indicate effort was made.**

As with all procedures, the member should maintain a copy of all correspondence concerning their retirement account. The member should also be aware that all follow-up responsibility lies with the member, not KTRS or the employer.

**EXAMPLE LETTER:  
FRACTIONAL SERVICE/UNPAID DAYS**

RE:    Member's Social Security Number  
         Member's Name  
         Member's Address

Dear \_\_\_\_\_

Kentucky Teachers' Retirement System Laws and Regulations provide that:

- (1) Members absent without pay for more than five (5) days in the contract year will receive fractional service credit unless they qualify to purchase the lost service;
- (2) Members absent without pay for less than five (5) days in the contract year will receive a full year of service credit. However, the salary credit will be reduced;
- (3) Any member who, as a regular full-time employee, started on the first day of the fiscal year and remained employed at least 70% but less than 100% of the school year, shall be entitled to purchase the balance of the year's credit for that year, provided the purchase is made by December 31 following the end of the school year in which the credit was lost;
- (4) The Kentucky Teachers' Retirement System calculates purchases made after June 30 of the school year, bearing interest at 8 percent (8%) per year and generally requires purchase by December 31.

Our records reflect you were absent without pay for \_\_\_\_\_ days and, therefore, lost \$\_\_\_\_\_ salary. However, you do apparently qualify to recover your lost service salary provided you act immediately.

If you wish to investigate this matter, contact \_\_\_\_\_ of our payroll office and obtain a copy of the Lost Service/Personal Contribution Certification form that must be submitted to Kentucky Teachers' Retirement System as documentation of your eligibility. This will then be submitted to KTRS for appropriate action or advisement.

Signature of Authorized School or Agency Official  
School System or Agency

Date